Printed from the Charlotte Observer - www.CharlotteObserver.com

Posted: Saturday, May. 26, 2012

Execs' pay still hefty, rising

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PUBLISHED IN: BUSINESS

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Shareholders have shaken up the corporate world this spring, voting against executive pay packages at prominent companies such as Citigroup, mall manager Simon Property Group and Charlotte-bound fruit company Chiquita Brands International.

The nonbinding "say-on-pay" votes have been required at public companies for two years, since the Dodd-Frank financial reform law passed in the wake of the recession. The votes have embarrassed companies that fail, prompting those boards to change how they pay executives.

But overall, the votes haven't curbed rising pay for CEOs in North Carolina or around the country.

One reason: Nearly all pay packages pass. In 2011, more than 98 percent of companies won shareholder support for executive pay packages, and it appears this year's results will be similar. And most companies win passage by a wide margin.

"It's creating some public embarrassments and drawing unwanted attention in some circles," said Tim Pollock, a Pennsylvania State University professor who has studied executive pay. "I don't know that it's actually changing pay practices, at least not substantially."

Some think the votes may even be pushing pay higher. University of Delaware professor Charles Elson said because most pay packages pass easily, boards of directors may feel they have free rein to dole out substantial executive raises.

A preliminary Observer analysis found the median pay for CEOs at the state's 50 largest publicly traded companies increased more than 11 percent last year, to $4.2 million. That's less than the average 2010 pay increase of more than 30 percent, but still well above the 1.4 percent increase in median wages North Carolina workers saw in 2011, according to the state Employment Security Commission.

And a study by The Associated Press found median CEO pay rose 6 percent at public companies nationwide, to $9.6 million. That's the highest since The AP started tracking executive pay in 2006. The Observer and The AP count salary, bonuses, perks and the value of stock and stock options when they're awarded to determine total CEO pay.

Though the say-on-pay votes haven't lowered pay across the board, they have triggered some subtler changes. Many companies have trimmed cash bonuses or left them flat, shifting more pay to stock awards or options. And eager to avoid a negative vote, companies are spending more time explaining their pay practices to shareholders.

Failures lead to changes

Chiquita, which is in the midst of a move from Cincinnati to uptown Charlotte, lost its say-on-pay vote last week by a 4-to-1 margin. The company has delivered negative returns for shareholders, and investors weren't swayed by Chiquita's assertions that CEO Fernando Aguirre's compensation is effectively linked to the company's performance.

The company said it is taking the vote seriously. "The Board's Compensation Committee will use this vote as an opportunity to review company policies and practices and make a recommendation to the Board on appropriate actions," Chiquita said in a statement to the Observer Friday.

Companies aren't required to adjust pay if they fail to win majority support. But changes are likely, as companies seek to keep shareholders happy and avoid possible lawsuits.

Simon Property Group, which owns SouthPark mall and Concord Mills, also failed its say-on-pay vote last week, by a 3-to-1 margin, the Indianapolis-based company said.

Steps taken by Dex One, the Cary-based directory publisher, illustrate what companies have typically done to appease shareholders after a failed vote. Dex One was the only major North Carolina-based company to fail its say-on-pay last year. The company had paid outgoing CEO David Swanson $14.2 million in 2010, and incoming CEO Alfred Mockett received a package worth $5.2 million. But Dex One struggled as its stock price fell from over $34 a share to under $8 by the end of 2010.

According to its 2012 proxy statement, after shareholders voted against Dex One's executive pay the company "engaged in a concerted outreach effort to seek direct feedback from the Company's top stockholders to better understand their concerns with respect to the Company's executive compensation program." The company spoke with shareholders controlling about 70 percent of Dex One's stock.

The board of directors added tougher conditions, such as a "claw-back" clause to recoup pay if the company's results later have to be restated. The board also tied stock and bonus awards more closely to annual ad sales targets.

Mockett's 2011 compensation was $1.7 million, down 66 percent from 2010. The company's shareholders voted to approve the current pay package at Dex One's annual meeting in early May.

Pollock said those types of changes are common at companies that fail their say-on-pay votes. Still, the effect has been largely limited to companies that fail their votes or win by a narrow margin.

"They're not going to change unless they have a (vote) themselves where either it comes really close or they fail," he said.

Political discourse

Passed in 2010, Dodd-Frank grew out of the political climate following the recession, when President Barack Obama decried bank bonuses as "obscene" and a federal pay czar was overseeing compensation at companies that took government bailouts.

Such issues are still at the forefront of political discourse today with groups like Occupy Wall Street highlighting income inequality and Obama calling for higher taxes on the very wealthy. Republican presidential candidate Mitt Romney has vowed to repeal Dodd-Frank, potentially ending the required say-on-pay votes.

The regulation mandates companies give shareholders a chance to vote yes or no on executive compensation plans at least once every three years, though most are doing so annually. Shareholder advisory firms, such as Institutional Shareholder Services and Glass, Lewis & Co., issue recommendations for how to vote on the pay packages.

Those recommendations carry enormous weight with investors but don’t guarantee an up or down vote. Shareholders then cast their nonbinding votes in time for the company’s annual meeting.

Executive pay consultant Paul Hodgson of GMI Ratings said one problem with say-on-pay is that with thousands of companies holding such votes, it’s tough for ratings agencies to come up with a yardstick to guide shareholders.

“It’s extremely difficult to come up with an algorithm that will identify whether a company’s policy is aligned with performance or not,” Hodgson said. “Shareholders have tended to go against the worst offenders.”

In addition, most shares of public companies are held by large institutional investors, such as companies that manage huge mutual funds. “They’re vying for these companies’ pension business, their 401(k) business,” said Pollock. “They tend to vote with management on most things, and not cost themselves potential business.”

Other effects

Even as pay packages continue to grow, say-on-pay has companies taking more pains to explain their decisions.

Take Reynolds American, for instance. The cigarette maker, based in Winston-Salem, took 33 pages in last year’s proxy statement to explain executive pay – twice as much space as it took in 2005.

“We saw significant changes in how companies disclose executive compensation practices in their proxy statements this year, far more emphasis on explaining how pay is linked to performance,” said Tom Kelly, Charlotte-based managing director of executive compensation firm Pearl Meyer & Partners.

Amy Borrus, spokeswoman for the Council of Institutional Investors, said companies are talking more with major shareholders about their pay practices. That’s true even if they’ve fared well with the votes, she said. “You’re seeing more companies doing outreach to investors on executive compensation, regardless of where they are in the vote spectrum,” said Borrus.

And even if say-on-pay votes don’t bring CEO pay down anytime soon, Pollock said they are useful for spreading awareness of the issue.

“It does keep CEO pay front and center,” he said. “Most people don’t really know what most CEOs are getting paid.”

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